



**THREE WEST
COMMERCIAL**

**NORTHWEST MICHIGAN
COMMERCIAL REAL ESTATE**

— 2023 ANNUAL —

MARKET REPORT

Reflecting on 2023; Looking Ahead to 2024



Higher interest rates. Continued inflation. Economic uncertainty. It was bound to happen, but it appears in 2023 we may have crested the top of the curve in the commercial real estate market in the Grand Traverse region. The numbers were down across the board last year compared to 2022.

The biggest drop was in the total square footage of commercial property sold, which was down 60%. The average size of buildings sold was down 45%, the average sales price was down 23% and the total volume of commercial sales was down 44%. The only positive numbers the industry saw last year were in the average sold price/square foot of office/medical properties and a slight increase in the retail/restaurant property sector.

So, the question then becomes, "Is the sky falling?" I'm not so quick to make that drastic of a determination, but the market is definitely changing as we move from a seller's market into a buyer's market. The activity and interest in commercial real estate properties in the Grand Traverse region is still very strong. One of the reasons for the decline in total sales numbers last year was simply due to a lack of qualified inventory. I believe moving into 2024, sellers will also need to acknowledge the outside factors that buyers have been dealing with for over the past two years, and it's not just higher interest rates. I think buyers are

taking other economic factors into consideration as they evaluate their real estate needs. Those items include cost and availability of housing for their employees, travel times, higher labor costs and strength of labor pools and other factors..

These other outside factors may buck the traditional supply vs. demand spectrum - where when supply is low and demand is high, the values increase. We have seen the success of deals getting done when the pricing is based on a fair market price for both seller and buyer.

The commercial real estate landscape will look different in 2024. Sellers who are willing to adjust with the market will still see success.

LOOKING AHEAD

While interest rates may soften this year, cash will still be king. Buyers with cash seemed to weather the increase in interest rates last year and it will allow them to remain competitive in the coming year. Plenty of buyers are still searching for property in our market. The keys to 2024 will be inventory and pricing. Sellers who are willing to work with buyers to do a deal that is a win-win for both sides of the transaction will drive deals in the coming year.

A handwritten signature in black ink, appearing to read 'Kevin Endres'.

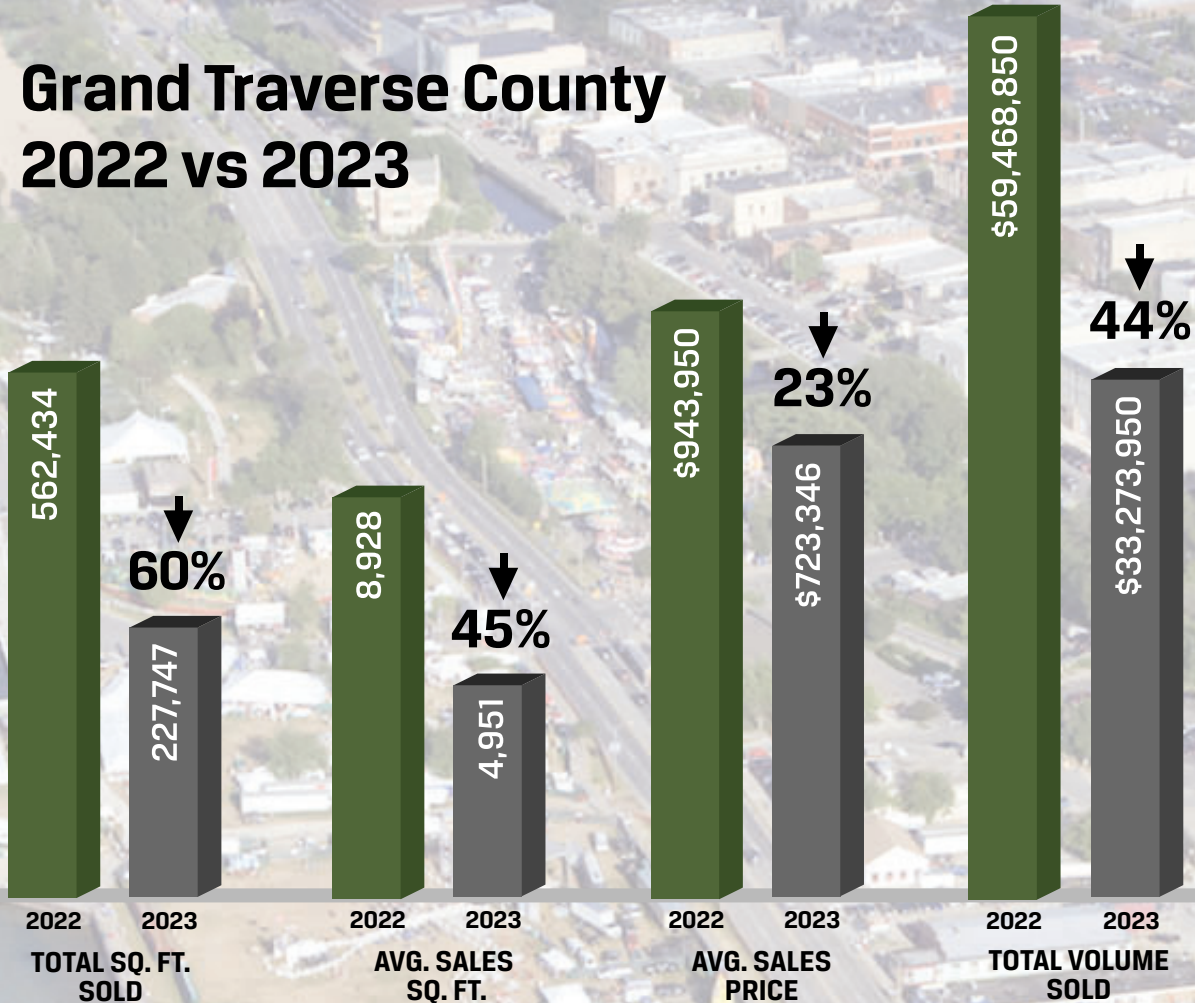
Kevin Endres, SIOR
Three West Commercial

**When the market was down 44%,
Three West was up 15%.**



Commercial Real Estate Sales

Grand Traverse County 2022 vs 2023



* All sales data is for sales in Grand Traverse County reported by Traverse Area Association of Realtors
** Properties without a recorded sales price are not included in the Average Calculations for Sold Price/SF



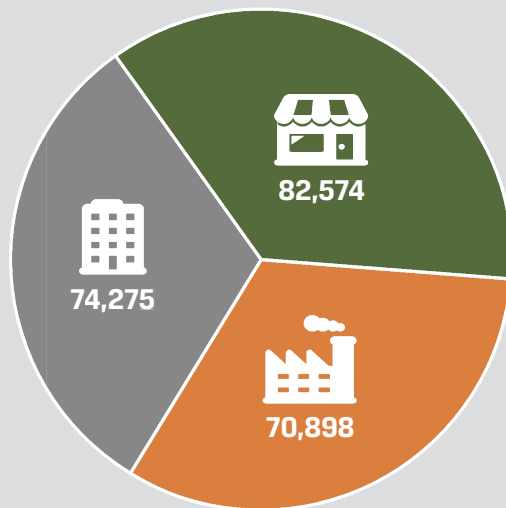
SOLD PROPERTIES GRAND TRAVERSE COUNTY

Year End: January 1 - December 31, 2023

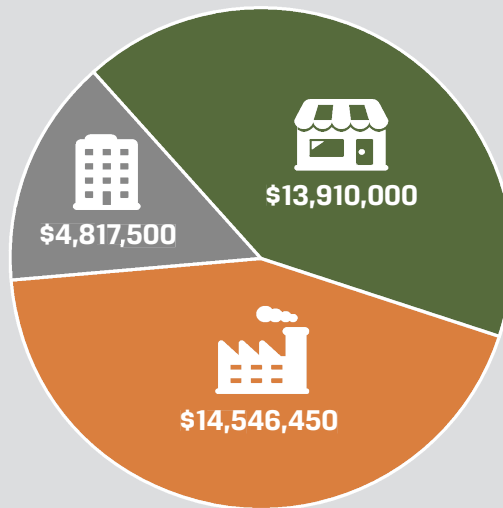
	TOTAL SQ. FT.	AVG BLDG. SQ. FT.	AVG. SOLD PRICE	AVG. SOLD PRICE/SQ. FT.	AVG. DAYS ON MKT.	TOTAL VOLUME SOLD
Office / Medical	74,275	3,537	\$692,688	\$230	248	\$14,546,450
Industrial / Warehouse	70,898	8,862	\$602,187	\$79	141	\$4,817,500
Retail / Restaurant	82,574	4,857	\$818,235	\$176	218	\$13,910,000

MARKET SNAPSHOT

TOTAL SQUARE FEET



TOTAL VOLUME SOLD



OFFICE / MEDICAL



INDUSTRIAL / WAREHOUSE



RETAIL / RESTAURANT

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** Properties without a recorded sales price are not included in the Average Calculations for Sold Price/SF

SALE-LEASEBACK: FREEING UP CASH FOR YOUR BUSINESS

If you own the commercial real estate which houses your business, a sale-leaseback offers an opportunity to generate cash from that property for your business needs. In this arrangement, the business can free up all of the equity tied up in the real estate as opposed to only 70%-80% of a property's value with typical mortgage re-financing. A business can also fully deduct rent as an operating expense.

In a sale-leaseback, an unrelated investor buys the property and leases it back to your business under a long-term lease. A typical lease length in the Traverse City area would be for five to 10 years and could include lease options for additional future extensions. In

In a sale-leaseback, an unrelated investor buys the property and leases it back to your business under a long-term lease.

the current market, there is strong demand from investors for single tenant leased properties. Investors like these properties due to the relative stability and ease of management of these investments with tenants responsible for routine maintenance and operations.

The Benefits

The advantages for a business that employs this strategy include: funding business expansion, reducing debt, supplying a cushion of capital for future business disruption, or returning cash to investors. Another benefit is to provide future flexibility in the size and location of your business when the lease term expires. Should a sale of a business be a possibility longer term, the pool of future

prospective buyers can also be expanded by not tying the purchaser to the current business location.

A Local Example

Hagerty Insurance employed a sale-leaseback strategy in the 2016 sale of its downtown Traverse City buildings and data center. The buildings were leased back to Hagerty under twenty-year leases with renewal options. Hagerty's reason for the transaction, as reported, was to free-up capital to invest in talent and infrastructure for growth of the business. However, this strategy is not just for large companies like Hagerty – there are investors looking into a wide range of transaction sizes.

Investors prefer triple net lease terms where the tenant is responsible for property tax, insurance, and other routine expenses. Depending on negotiated lease terms, responsibility for major future capital improvements such as roof or HVAC replacement could be placed with the new owner.

"Cap Rate"

An investor will generally value your property based on investment return as measured by a capitalization rate, commonly referred to as a "cap rate." Cap rates generally move in correlation with long-term interest rates. A cap rate is calculated by dividing the annual revenue on a triple net lease by the value of the property. For example, an investor that requires an eight percent cap rate on a property with annual triple net rent of \$80,000 would value a property at one million dollars. So, the value of your property will primarily be a function of market cap rates, negotiated rental rate and lease length.



Factors investors also consider in valuing the real estate include: the amount of annual lease rental increases, business credit quality, location and physical condition of the commercial real estate, and recent comparable sales.

Capital Gains Tax?

If you are concerned about capital gains tax from your property sale, a 1031 tax deferred exchange could be used to reinvest sale proceeds into another leased property. This strategy results in a deferral of your capital gains until a future sale of the exchange property, while also diversifying your investment risk away from your business.

Think a sale-leaseback might be right for you and your commercial property? Three West can help you evaluate your individual business circumstances – including discussions with your accountant and tax advisor. To find out more, give us a call.



Bill Somerville is a Commercial Realtor with Three West, northern Michigan's largest commercial real estate brokerage specializing in retail, industrial, office, and development properties in Traverse City and beyond.

Learn more at ThreeWest.com.



NOTABLE TRANSACTIONS

OFFICE



PETOSKEY
1619 Anderson Road

LIST PRICE: \$5,000,000
SOLD PRICE: Undisclosed
BUILDING SIZE: 55,331 Sq. Ft.



MANISTEE
1400 E Parkdale Avenue

LIST PRICE: \$875,000
SOLD PRICE: \$740,000
BUILDING SIZE: 8,245 Sq. Ft.



TRAVERSE CITY
3281 Racquet Club Drive

LEASE PRICE: \$1,240 / Month
PROPERTY SIZE: 960 Sq. Ft.



TRAVERSE CITY
806 Hastings Street

LEASE PRICE: \$855 / Month
BUILDING SIZE: 644 Sq. Ft.

RETAIL



BENZIE COUNTY 1505 Benzie Highway

LIST PRICE: \$945,000
SOLD PRICE: 845,000
BUILDING SIZE: 14,400 Sq. Ft.



TRAVERSE CITY 921 W South Airport Road

LIST PRICE: \$945,000
SOLD PRICE: \$800,000
BUILDING SIZE: 4,000 Sq. Ft.



TRAVERSE CITY 3480 W Airport South Road

LEASE PRICE: \$2,200 / Month
BUILDING SIZE: 1,450 Sq. Ft.



TRAVERSE CITY 3054 Cass Road

LEASE PRICE: \$950 / Month
BUILDING SIZE: 540 Sq. Ft.



NOTABLE TRANSACTIONS

INDUSTRIAL



TRAVERSE CITY
891 Hughes Drive

LEASE PRICE: \$12,746 / Month
BUILDING SIZE: 17,090 Sq. Ft.



TRAVERSE CITY
3660 Rennie School Road

LEASE PRICE: \$4,879 / Month
BUILDING SIZE: 7,319 Sq. Ft.



TRAVERSE CITY
3334 W Veterans Drive

LEASE PRICE: \$1,995 / Month
BUILDING SIZE: 7,319 Sq. Ft.



TRAVERSE CITY
206 Elm Street

LEASE PRICE: \$1,850 / Month
PROPERTY SIZE: 960 Sq. Ft.

VACANT



TRAVERSE CITY
3664 N US-31 S

LIST PRICE: \$300,000
SOLD PRICE: \$290,000
PROPERTY SIZE: 1.26 Acres



TRAVERSE CITY
00 Vance Road

LIST PRICE: \$275,000
SOLD PRICE: \$275,000
PROPERTY SIZE: 3.12 Acres

PLATINUM
BROKER
AWARD
WINNER
2023



CREXI

STRONGER IN 2024!

We're proud to announce Patrick Dunphey and Noah Endres have joined the Three West team!



PATRICK DUNPHEY
ASSOCIATE | COMMERCIAL REALTOR
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NOAH ENDRES
MARKETING SUPPORT SPECIALIST
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THREEWEST.COM

WE ARE NORTHERN MICHIGAN'S COMMERCIAL REAL ESTATE BROKERAGE

A YEAR TO CELEBRATE

[2023]

\$45M

Total Sales Volume



SIOR[®]

First broker in our region
to earn this prestigious
designation

136

Closed
Transaction Sides

#1

Commercial Office in
Northern Michigan

#1

Commercial Agent
Kevin Endres



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commercial real estate insights
delivered to your inbox

3W
THREE WEST
COMMERCIAL

THREWEST.COM (231) 929-2955

We are the leading commercial real estate firm in northern Michigan. For 16 years, we've earned the trust of our clients, assisting them with buying, selling and leasing commercial properties.

“THREE WEST FOUND US THE PERFECT TENANTS.”

— ANDY KEMPF, CEO
4FRONT CREDIT UNION



CLIENT:
4Front Credit Union
Andy Kempf, CEO

PROPERTY:
305 W Front Street ,
Traverse City

SERVICES:
Identify/Secure Tenants
for New Building

“ Three West helped us locate and secure exactly the sort of tenants we were hoping for:

Two restaurants and a physical therapy office!

With their extensive background and knowledge of the area, Three West worked with us to identify the specific types of businesses that would enhance our staffs' daily lives, as well as the community. A huge win-win. And the process was painless! ”



*Andy Kempf, CEO
4Front Credit Union*



**THREE WEST
COMMERCIAL**
REAL ESTATE | CONSULTING

**COMMERCIAL REAL ESTATE
IS ALL WE DO**



A HIGHER STANDARD IN NORTHERN MICHIGAN

Three West's Kevin Endres is northern Michigan's first and only recipient of the coveted SIOR designation.



Kevin Endres, SIOR
Three West Commercial



SIOR[®]

SOCIETY OF INDUSTRIAL
AND OFFICE REALTORS[®]

When you hire an SIOR, you're choosing the most successful, respected, and highest producing CRE broker in the region.



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